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May 6, 1953

My dear Senator McCarthy:

You have asked through Assistant Secretary Morton as to my views regarding trade with Red China. The answer is clear. Our policy is to do all that we can by measures short of war to weaken Red China economically while she is an open aggressor in Korea.

It is not now feasible to bring about a total embargo of all trade with Communist China. This in part depends upon factors that we do not control. We can, however, largely reduce the trade and insure its character being such that the exchange gives Red China little of strategic value, and, on net balance, little of economic value.

During recent weeks we have made considerable progress along this line and further progress is in prospect.

In view of the intricacies of the matter, the question of what particular measures, applied to shipping, will promote our ends and what will tend to defeat our ends is highly technical. The statement filed with you by Mr. Leddy represented the best judgment that the Administration could bring to bear on the phase of the matter being considered by your Committee. This judgment was not exclusively State Department judgment but was the consensus of the interdepartmental committee mentioned in Mr. Leddy's statement. You will appreciate that the situation is constantly changing and as we continue our exertions, the implementation of our basic policy is subject to change.

I might add that the position as regards Communist China is, I believe, different in some measure from the

The Honorable
Joseph R. McCarthy,
United States Senate.

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position as regards certain other areas of the Soviet Communist world, notably some of the European satellites. There trade of certain kinds might promote our political and economic ends and, by demonstrating the economic superiority of free enterprise, make it into an attracting force against Communism.

Sincerely yours,

(signed) John Foster Dulles

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UNITED STATES SENATE
Committee on Government Operations

May 6, 1953

My dear Mr. Secretary:

Thank you for your letter of May 6th, wherein you advised me as to your views regarding trade with Red China. In that communication you stated that it is not now feasible to bring about a total embargo of all trade with Red China.

While I appreciate your courtesy in furnishing me with your views on this problem of trade with Red China, I do not believe that your letter answers the specific question that arose at our Subcommittee hearing on Monday, May 4th. In view of the importance of this matter and because of the apparent conflict in the testimony of Governor Stassen and Mr. Leddy as to the ultimate objectives of our government concerning the continuation of trade by our Western allies with Red China, it would be appreciated if you would inform me as to the present policy of our government with regard to the following:

"As long as Red China continues to be an open aggressor in Korea, is it the ultimate objective of our government to endeavor to get our Western allies to stop all trade with Communist China?

As you know our Subcommittee is continuing its investigation into this very important problem of Communist trade, and I would appreciate a reply to this letter at your earliest convenience.

Very truly yours,

(signed) JOE MCCARTHY

Chairman
Senate Permanent Subcommittee on Investigations

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May 7, 1953

My dear Senator McCarthy:

I have your letter of May 6, asking the following question: "As long as Red China continues to be an open aggressor in Korea, is it the ultimate objective of our Government to endeavor to get our Western Allies to stop all trade to Communist China?" The answer to this is "yes" subject to this qualification that where, in specific instances, there are transactions which on examination we appraise as being to our net security advantage, we do not intend to try and prevent them. For example;

It benefits little to stop one avenue of trade if new ones are opened up. It may be better to tolerate a small amount of trade which is controlled as to the kind and to quantity rather than to stop this trade entirely if the result will be that other avenues of trade open up which cannot be controlled either as to quantity or as to kind. Also there are a few things which Red China produces which we ourselves and our friends need and which we try to get in ways that do not involve any corresponding advantage to Red China.

Of course, I can only speak for the Department of State, but I have read this letter to Mr. Stassen, who advises me that it also represents the position of the Mutual Security Agency. Both of us follow the Congressional mandates with respect to this matter and beyond that the decisions of the National Security Council which has this matter steadily under review.

Sincerely yours,

(signed) John Foster Dulles

The Honorable
Joseph R. McCarthy,
United States Senate.

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EXCERPTS FROM TESTIMONY BY SECRETARY OF STATE DULLES
ON THE MUTUAL AID PROGRAM

SENATOR SMITH. Well, now, I have another line of questions which I am very much interested in. I have seen you quoted recently with regard to the whole question of East-West trade.

What would be the effect if there was a cessation of East-West trade on Europe's need for United States assistance? In other words, can we use the United States trade level to help put a little pressure on the Far East situation and try to bring Korea to a speedy conclusion by putting a little economic heat on that situation? What would the effect of that be on Europe? Would it be dangerous for Europe if we took that position and made it a policy?

SECRETARY DULLES. I think you have got two separate problems. One is the East-West trade in Europe, which is very largely between some of the European countries and satellite countries such as Poland, who send coal, and so forth.

There is a European trade of the dimensions of around \$800 million a year both ways, and it is our present thinking at least that it would not be desirable to try to cut that trade off. It would impose upon us a very heavy additional economic responsibility, I think, if we tried to cut that off. It would either mean a very sharp decline in the economic conditions in those countries or we would have to compensate by increased aid from ourselves.

And furthermore, I believe that that kind of trade can be definitely to our advantage in particularly awakening the satellite countries to the possibilities of closer relations with the Western countries as against what they can get through their present relations with the Soviet Union.

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I am told that in several of these countries today; for example, I had a talk recently with our Ambassador to Hungary who is here, and he said that there was a very great desire on the part of Hungary to have closer relations with the West of an economic character and to lose even its economic dependence upon the Soviet Union, and I believe that in that area trade can be an advantage, and that probably under present conditions we should not attempt to cut off that trade.

Of course, we do provide under the Battle Act that it shall not take a form which will involve giving the Soviet Union or any of her satellites articles of strategic value such as actual war material and things of that sort.

SENATOR SMITH. Some of us, of course, are bothered by the thought that almost any article today is of some strategic value.

SECRETARY DULLES. Yes, that is quite true, but by the same token you might say what we get from them is of strategic value to us.

SENATOR SMITH. I wasn't thinking, frankly, so much of the East-West trade in Europe as the Far East.

SECRETARY DULLES. You are coming to the China situation, which is a different situation. There I believe that we ought to do everything possible to subject China to the maximum of economic strain in order to penalize her for her aggression, and make her repent of her ways and to give up aggression, if that is at all possible, and it is the policy of the State Department to try to eliminate trade with China, particularly in terms of the more important strategic materials to the maximum degree that we can.

Of course, the United States itself has cut off all trade with China and we are increasingly getting agreements with other maritime countries, British, French, the Greeks, and others, which are steadily cutting down on China trade.

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So far we have not thought it wise to attempt to inaugurate a blockade, a naval blockade of China. There are a good many problems in the way of that which I prefer not to go into at this particular session, but short of that, we are dependent for the best results upon negotiating pressures of one sort or another, which we are trying to exert.

We have made very considerable progress and we expect that more progress is in sight, we think.

SENATOR SMITH: Couldn't we make more progress in getting our allies, and especially our good friends, the British and French, to join with us in common policy of gradually tightening up that pressure?

SECRETARY DULLES. They have been moving in our direction in that respect, not as rapidly as we would like, but at least it is somewhat encouraging.

SENATOR SMITH. It seems to me we are very much embarrassed by the fact that we haven't got a common policy in the Far East.

SECRETARY DULLES. Basically it is, of course, unfortunate, and to an extent unnatural, that our policies should diverge so greatly that they recognize and we do not recognize the Chinese Communists.

I would hope that that situation could be changed, but it is not in prospect, I must say, at the present time.

* * * * *

SECRETARY DULLES. I took the position, which is the Administration position, which I fully share, the view that it would be a very great mistake at this time to take action which would substantially increase tariff rates, or seem to presage such a policy for the future.

We believe that that matter should be studied in all of its aspects and its bearings upon other parts of our program, such as our program for economic relief which we are trying to cut off.

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It is not possible to maintain the unity which is reflected, for example, by NATO, which already represents a very important element in our own defense planning, if our economic policies are such as, for example, simultaneously to expect a big military effort, to cut off their trade with us, to continue their imports from us, to cut off trade with the Soviet bloc, and get along without any economic aid.

If we do all of those things, it is just utterly impossible to preserve anything like the unity and strength that is now represented by NATO. The whole thing, in my opinion, would collapse if those things happened.

All of those things are interdependent. We are starting the program now before you to try to get away from straight economic aid. We had discussions about that, particularly with the British and French, when we were in Paris ten days ago.

There was a certain amount of dismay when we first indicated the way we were thinking. As I think I said in this statement, their mood is not one which is proof against what I might call multiple shocks. We have got to move carefully here to adjust the situation.

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SECRETARY DULLES. Well, that is the danger if for financial reasons they have to cut down the imports from us, the things that they need, they may turn elsewhere to get them.

SENATOR FULBRIGHT. They would have to. They are living right on the borderline, some of them in any case. They don't have much to go on. They have either got to trade with us or the Communists or the Communist bloc.

SECRETARY DULLES. That is one reason why, as I indicated in my previous answer, I think, as far at least as Europe is concerned, we must be tolerant of a certain

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amount of East-West trade there, because if we were successful in getting our European friends to cut that off entirely, we would almost have to compensate in some way by more aid from the United States.

SENATOR FULBRIGHT. That was exactly the point I was leading up to. It seems to me the country is very well educated about it. They accept the slogan that they ought not to trade because it seems to be put in the framework of being unpatriotic, or being uninterested in cooperating.

It is largely a matter of survival, isn't it? They have got to trade with somebody, and if we won't trade with them they will be forced to trade with these people.

I had a specific case brought to my attention from Austria, a small factory making material that was questionable as to whether it was completely strategic or not. It might or might not be. We asked them to close it down, although it meant unemployment and complete loss of the whole productivity of the factory in that little country. If we are unable to take it, how can we continue to insist that they not trade with anybody else? The alternative is to give or to buy, isn't it?

SECRETARY DULLES. Yes, sir.

SENATOR FULBRIGHT. I think there is lack of understanding of that. These people aren't trading with the Communists just because they love the Communists. It is because they have got to live. They have got to eat, like other people, don't they?

SECRETARY DULLES. Yes.

Japan, of course, is a very outstanding example. You have the rather unnatural spectacle of the Japanese importing coke, coal and iron ore in vast quantities from the United States, largely still today in foreign ship-

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ping because their own merchant marine is not yet fully restored, at prohibitive costs, because their normal sources of supply and the normal markets are gone. It is a very difficult situation and, of course, if South-east Asia should go, their plight would be even worse.

SENATOR MANSFIELD. Mr. Secretary, there is a catch phrase going around now known as trade not aid. At the same time we are trying to get some of our friends to cut out trading with the East altogether.

Where are those people going to go to make up the markets they lose in carrying on their normal operations with countries behind the Iron Curtain countries, like Austria, Italy to a certain degree, West Germany? They have normal procedure to the East. If they give up that trade, where is the slack going to be taken up?

SECRETARY DULLES. I have already indicated, Senator, that I do not think that we should push the effort to restrict that east-west trade in Europe, particularly with the satellite countries, beyond roughly the present limits which are defined by the so-called Battle Act which applies to certain types of material but which does not purport to require a complete obliteration of that trade.

As I indicated, I think that trade can be perhaps of greater advantage to the free world if we use it right than it is to the Communist world, and can be set up as one of the attractions which may eventually tend to disintegrate the attractiveness of the captive world, the Communist world.

I also pointed out that I think the situation in China is somewhat different, but the trade with China has already been very sharply reduced and its further reduction would not, I think, have any serious economic consequences upon the countries to which you refer.

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May 18, 1953
6:30 p.m.

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